



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Citizen Oversight
Committee for the Public
Safety Bond Program

SUBJECT: See Below

DATE: November 29, 2006

**SUBJECT: ANNUAL FINANCIAL REPORT ON THE NEIGHBORHOOD SECURITY
BOND PROGRAM FOR FISCAL YEAR 2005-2006**

RECOMMENDATION

Acceptance of this report on the Neighborhood Security Bond Program.

OUTCOME

This report to the Mayor and Council provides an update on the status of the Neighborhood Security Bond projects at the end of its fourth full fiscal year (2005-2006).

BACKGROUND

On March 5th, 2002, voters approved Measure O, San José 911, Fire, Police, Paramedic and Neighborhood Security Act, authorizing the City to issue general obligation bonds up to \$159,000,000. Consistent with bond requirements, the City established a Neighborhood Security Bond Citizen Oversight Committee (COC) to conduct an annual public hearing and prepare an annual report informing the Council and the public of the appropriateness of bond expenditures, the progress of the various projects, and the results of the annual audit on or before December 31st of each year.

On February 15th, May 24th and August 23rd of 2006, the COC met with staff to review quarterly expenditures of the projects included in the Neighborhood Security Bond Measure. On November 29th, 2006, the COC conducted a public hearing to review expenditures for fiscal year 2005-2006. City staff presented information to the COC regarding the appropriateness of bond expenditures and the progress of the various projects. The results of the annual citywide financial audit were also included in the information packet reviewed by the COC.

This report to the Mayor and Council provides an update on the status of the Neighborhood Security Bond project expenditures at the end of fiscal year 2005-2006.

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ANALYSIS

During the fourth fiscal year (2005-2006) of the Public Safety Bond Program, City staff and consultants have made significant progress in multiple areas.

Land Acquisition:

As a result of work performed during this reporting period, the COC is pleased to report steady progress in this area. On August 22, 2006 council made a determination of "Public Interest and Necessity" and approved the initiation of eminent domain proceedings for a .67-acre portion of a privately owned parcel located at the corner of Piedmont and Sierra Roads for the relocation of **Fire Station No. 19**. The Santa Clara County Superior Court granted an order of immediate possession for this property, effective November 1, 2006. With the possession of the property established, the City can begin to conduct site survey and geotechnical studies necessary for preliminary design work to commence. On June 6, 2006, voters passed a ballot measure to allow the proposed placement of a fire station (i.e. **Fire Station No. 36**) on up to 1 acre of land of the Silver Creek Linear Park. After passage of the ballot measure by voters, staff also began survey and right-of-entry work for the adjacent PG&E parcel to be used as parking for this proposed station. Staff has contacted PG&E regarding obtaining easement rights for this project. Staff has also continued to coordinate with a developer on the proposed location of relocated **Fire Station No. 21** as part of a larger development that is currently in the planning and environmental clearance stages. **Fire Station No. 37** is still in the site investigation phase for viable private or City owned parcels in the Willow Glen Neighborhood.

Staff is continuing to evaluate multiple site options for the **East Community Policing Center** and is anticipating negotiations for a long-term home for the **South Community Policing Center** to commence in the winter of 2006.

As of this report, ten projects have completed land acquisitions, two have completed site selection and are in various stages of negotiations and/or public outreach; two have identified one or more site options and are in the process of due diligence to verify suitability; and two are in the early site selection phase.

Through the end of the 2005-2006 fiscal year, the total expenditures related to land acquisition totaled approximately \$ 11.64 million. This amount includes the \$8.0 million expenditure for the South Police Substation that took place in January 2006. This total does not include however, the \$1.55 million placed in escrow for the Fire Station 19 relocation property, which will be reflected in future reports.

Project Management & Design:

During the fourth fiscal year, staff continued to work with consultants on the completion of construction documents, bidding and subsequent award of **Fire Station Nos. 25, 34 & 35**. The construction documents for **Fire Station No. 17** were also brought to 100% and put out to bid in late July through early August 2006. In-house and consultant staff also made steady progress on the design of **Fire Station No. 12** which achieved 95% construction documents in late September 2006.

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On the Police side, consultants submitted to staff their 100% design development package for the **South San Jose Substation** in mid-July 2006 and have made substantial progress on the building and site designs. Staff has also selected a consultant for pre-construction and construction implementation support services for the Substation, which Council approved in October 2006. Throughout the fourth fiscal year, several public art meetings for the Substation were held to introduce the selected artists and to review proposed conceptual designs.

As of this report, staff has finalized the concept layout for the proposed **Emergency Communications Dispatch Center** renovation project and is obtaining executive staff approval for the project costs estimates and schedule from each stakeholder department. Once the above items are approved, staff will finalize with negotiations for a corresponding design and engineering consultant service order.

Through the end of the fourth fiscal year of the Public Safety Bond program the total expenditures and encumbrances for project delivery totals approximately \$ 19.4 million. This total includes approximately \$4.9 million in remaining balances on consultant agreements for design and construction support services.

Construction:

During this reporting period, staff is pleased to report that the program has achieved a significant milestone as three new fire stations are beginning construction. The total construction costs expended and encumbered up to this reporting period stands at approximately \$19.31 million; an increase of \$13.63 million (or 387%) over the to-date total from last fiscal year. Largely responsible for this sizable increase was the successful award for construction of three Fire Station building projects (**Nos. 25, 34 & 35**). A fourth (**Fire Station No. 17**) received bids significantly above available funds and is scheduled for rebid in early 2007. This trend of increased construction expenses and encumbrances will continue as several additional stations are placed out to bid later in the current Fiscal year.

Also as of this report, the rear yard concrete pavement for **Fire Station No. 10** is complete, while work on the **Fire Station No. 5** rear yard remodel is wrapping up. During this reporting period, significant progress was also made on the workout room at **Fire Station No. 18**, which achieved beneficial occupancy in August 2006.

Project Budget and Schedule Adjustments:

Council adopted the Proposed 2006-2007 Capital Budget and 2007-2011 Capital Improvement Program (CIP) on June 27, 2006. Contained in these budgets were adjustments to Fire and Police projects necessary to address anticipated increases in project delivery and regional construction costs. The overall increased funding needed for the ten Fire Station building projects was estimated at approximately \$8.5 million while the Police Substation and Public Safety Driver Training facility were estimated to require an additional \$2.5 million. These project budget increases were funded through allocations of interest from bond sale proceeds and use of the Bond Fund's Contingency Reserve. Even with these increases to individual projects, the Public Safety Bond fund (Fund 475) in the adopted budget still carries a \$6.0 million

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Contingency Reserve and a \$1.44 million Police Bond Facilities Contingency. The Fire Department is also carrying a \$768,000 capital project reserve funded by a portion of their allocation from the Construction and Conveyance Tax Fund. The combined value of these reserve monies represents a budgeted contingency of approximately 7.5% of the remaining uncommitted program funds authorized under the Act. As individual project or program-wide funding need and adjustments are identified staff will forward recommendations to Council regarding use of these funds.

Project Financing and Expenditures:

A total of \$78.80 million in General Obligation (GO) Bonds have been issued to fund Public Safety Bond projects through the fourth quarter of 2005-2006. In addition to bond revenue, interest earned to date as of June 30, 2006 totaled approximately \$ 4,913,507, for total revenue of \$83.72 million.

Approximately \$50.39 million of bond funds to date have been expended or encumbered. The City expects to issue additional GO bonds under the Neighborhood Security Act Bond authorization over the next two to three years.

The table below shows the total revenues, expenditures and encumbrances through June 30, 2006 for Public Safety Bond projects.

Fiscal Year	Bond Proceeds & Interest	Expended & Encumbered	Balance
2002-03	40,660,080	2,190,303	
2003-04	660,429	8,952,788	
2004-05	40,418,700	4,527,979	
2005-06	1,976,090	34,718,284	
Totals:	\$ 83,715,299	\$ 50,389,354	\$ 33,325,945

The independent accounting firm of Macias, Gini & Company completed their annual audit of city funds in September 2006 for the fiscal year ended June 30, 2006. The audited financial statements, known as the Comprehensive Annual Financial Report (CAFR), included a review of the Public Safety Bond Projects Fund. As part of the outside auditor's review, any significant issues are identified and commented upon. The CAFR was presented by the Finance Department and the City's independent outside auditors to the City's Making the Government Work Better Committee on October 19, 2006 and reported out to the City Council in November 2006. No significant issues were identified and reported on for the Public Safety Bond Projects Fund.

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Conclusion:

As the Public Safety Capital Bond program completed its fourth fiscal year, expenditures and encumbrances (funds "committed") program wide have accelerated. The total funds committed during the 2005-2006 fiscal year exceed the combined total of the past three years by over 185%. While this increase was due primarily to the purchase of the **South San Jose Substation** property and the awards for construction of three Fire Station projects, awards of additional Fire Stations and the Police Substation building projects will continue to sustain a higher overall rate of expenditures and encumbrances over the next years.

Of the Public Safety Bond Program projects, 31 have incurred expenses and/or encumbrances through the 2005-2006 fiscal year. As of this report, fifteen have been completed or achieved "Beneficial Occupancy," four are under construction, one is in the bid phase, eight are in various phases of design; and ten have acquired real estate for new facilities. Staff will continue to provide quarterly updates to the COC on the status of the projects and their expenditures as they progress.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this action does not meet any of the criteria above, this report will be available on the City's website.

The public hearing for the review of this item was posted on the City's Brown Act board. It was also advertised in all City library branches and community centers. A meeting notice was also posted on the City's web site and issued to the media as a press release. Eight members of the public attended the hearing. No questions from the public were submitted at the hearing.

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COORDINATION

This memo has been coordinated with the City Manager's Office, Police Department, Fire Department, Budget Office, Finance Department and the Department of Public Works.

CEQA

Not a project.



PHYLLIS LAZZARINI

Chairperson

Public Safety Bond – Citizen Oversight Committee